

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
THE HELP II PROGRAM  
EXECUTIVE SUMMARY**

|  |   |
|--|---|
| <b>Applicant:</b> Escuela del Rio (“Escuela”)<br>5940 Rosario Ave.<br>Atascadero, CA 93422<br>San Luis Obispo County | <b>Amount Requested:</b> \$400,000<br><b>Requested Loan Term:</b> 15 years<br><b>Date Requested:</b> July 31, 2008<br><b>Resolution Number:</b> HII-225 |
|--|---|

**Project Site:** 1205 El Camino, Atascadero, CA 93422  
**Facility Type:** Adult Day Care Center  
**Prior HELP II Loan Borrower:** Yes (combined balance of two loans as of July 1, 2008 is \$206,440)

**Background:** Escuela is a private, non-profit corporation which began in 1975. Escuela has operated an adult day care center for developmentally disabled adults in Atascadero since 1974. Escuela and all of its programs are located in Atascadero, and it serves all eligible clients who live in north San Luis Obispo County.

**Uses of Loan Proceeds:** Loan proceeds will be used to construct a 2,500-3,000 sq. ft. training facility for developmentally disabled adults on property it owns at 1205 El Camino, Atascadero.

**Financing Structure**

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$2,762 (yearly payments of approximately \$33,144).
- First lien position on property located at 1205 El Camino, Atascadero, CA 93422.
- Loan to value ratio not to exceed 95%.
- Gross Revenue Pledge.

**Financial Overview:** Over the last three fiscal years, Escuela’s income statement appears to present stable operating results. Escuela’s balance sheet appears solid with good liquidity and acceptable debt service coverage, including an acceptable pro forma debt service coverage ratio of 1.61x, indicating Escuela should likely be able to make repayments of the proposed HELP II loan.

**Sources of Funds**

|                      |                         |
|----------------------|-------------------------|
| HELP II Loan         | \$400,000               |
| Borrower Funds       | 120,000                 |
| Grant*               | <u>25,000</u>           |
| <b>Total Sources</b> | <b><u>\$545,000</u></b> |

**Uses of Funds**

|                            |                         |
|----------------------------|-------------------------|
| Construct facility         | \$503,000               |
| Permit and Preconstruction | 35,000                  |
| Financing costs            | <u>7,000</u>            |
| <b>Total Uses</b>          | <b><u>\$545,000</u></b> |

\* Received from the City of Atascadero, Community Development Block Grant.

**Legal Review:** No information was disclosed to question the financial viability or legal integrity of the Applicant.

**Staff Recommendation:** Staff recommends approval of a HELP II loan for Escuela del Rio in an amount not to exceed \$400,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION  
THE HELP II PROGRAM**

July 31, 2008

Escuela del Rio (Escuela)

Resolution Number: HII-225

**I. PURPOSE OF FINANCING**

***Construct facility* ..... \$ 503,000**

Escuela is proposing to construct a new 2,500-3,000 sq. ft. training facility for developmentally disabled adults on property it has owned free and clear since 1984 at 1205 El Camino, Atascadero, California.

Escuela plans to demolish the existing building given the needed major repairs to the roof, electrical and plumbing systems, as well as the foundation and overall structural components. The building currently houses Escuela's Toward Independence Program (Escuela-TIP), which has an optimal capacity of about 21 disabled adults, but the highest client capacity has been at 26, with a waitlist since 1984. However, due to the size and current condition of the facility, service capacity cannot be expanded. The existing building, approximately 1,400 sq ft., was originally constructed as a single-family residence sometime in the 1940s or 1950s.

The proposed larger facility, will provide a safer environment and expand service capacity to 36-40 clients, including non-mobile clients. Construction is scheduled to begin August 2008 and is expected to be completed by November 2008.

The proposed HELP II loan will be secured by a 1st lien on the property located at 1205 El Camino in Atascadero, CA. CHFFA will require an as-improved full appraisal report on this property prior to closing, which must be satisfactory to the Authority's policy regarding the loan to value ratio of 95%

***Permit, Architectural, and Preconstruction Costs* ..... 35,000**

***Financing Costs* ..... 7,000**

Title & escrow fees ..... \$ 2,000

Authority fee ..... 5,000

***Total Uses of Funds* ..... \$ 545,000**

## II. FINANCIAL STATEMENTS AND ANALYSIS

### Escuela del Rio Statement of Activities (Unrestricted)

| <b><u>SUPPORT, REVENUE &amp; GAINS</u></b>        | <b>For the year ended June 30</b> |                   |                   |
|---|-----------------------------------|-------------------|-------------------|
|   | <b>2007</b>                       | <b>2006</b>       | <b>2005</b>       |
| Tuition   | \$ 963,880                        | \$ 951,196        | \$ 919,764        |
| Work program                                      | 34,091                            | 27,831            | 24,431            |
| Staff support                                     | 22,110                            | 22,342            | 22,376            |
| Donations and grants                              | 10,701                            | 47,333            | 1,729             |
| Memberships                                       | 10,109                            | 9,620             | 8,539             |
| Other income                                      | 8,851                             | 4,941             | 3,220             |
| Interest  | 8,253                             | 5,587             | 2,549             |
| Transportation                                    | 5,922                             | 6,908             | 7,146             |
| Total support, revenue and gains                  | <u>1,063,917</u>                  | <u>1,075,758</u>  | <u>989,754</u>    |
| <b><u>EXPENSES</u></b>                            |                                   |                   |                   |
| Staff salaries and wages                          | \$ 612,312                        | \$ 618,839        | \$ 561,643        |
| Employee benefits                                 | 93,203                            | 91,217            | 83,011            |
| Staff payroll taxes                               | 51,549                            | 51,026            | 46,974            |
| Depreciation and Amortization                     | 42,975                            | 45,970            | 49,708            |
| Pension expense                                   | 31,050                            | 31,760            | 21,779            |
| Client salaries, wages, and payroll taxes         | 28,093                            | 24,842            | 22,141            |
| Repair and maintenance                            | 26,011                            | 20,012            | 15,003            |
| Insurance   | 24,513                            | 24,527            | 26,166            |
| Cleaning and janitorial                           | 22,205                            | 25,286            | 24,489            |
| General expense                                   | 12,709                            | 13,490            | 11,460            |
| Utilities and communications                      | 17,748                            | 17,917            | 17,988            |
| Program and office supplies                       | 12,267                            | 19,437            | 10,512            |
| Professional and outside services                 | 9,286                             | 10,222            | 9,828             |
| Travel, training, and education                   | 9,210                             | 7,456             | 6,277             |
| Interest  | 7,227                             | 7,840             | 7,527             |
| Transportation contract and contract consultation | 9,318                             | 8,118             | 7,361             |
| Miscellaneous and other                           | 5,435                             | 2,591             | 2,118             |
| Total expenses                                    | <u>1,015,111</u>                  | <u>1,020,550</u>  | <u>923,985</u>    |
| <b>Change in unrestricted net assets</b>          | <b>48,806</b>                     | <b>55,208</b>     | <b>65,769</b>     |
| Unrestricted net assets at beginning of year      | <u>761,471</u>                    | <u>706,263</u>    | <u>640,494</u>    |
| Unrestricted net assets end of year               | <u>\$ 810,277</u>                 | <u>\$ 761,471</u> | <u>\$ 706,263</u> |

**Escuela del Rio  
Statement of Financial Position**

|  | As of June 30 |              |              |
|--|---------------|--------------|--------------|
|  | 2007          | 2006         | 2005         |
| <b><u>Assets</u></b>                           |               |              |              |
| Current Assets:                                |               |              |              |
| Cash and cash equivalents                      | \$ 449,373    | \$ 401,123   | \$ 315,870   |
| Accounts receivable                            | 80,314        | 78,303       | 81,030       |
| Total Current Assets                           | 529,687       | 479,426      | 396,900      |
| Property and equipment, net                    | 559,248       | 601,875      | 641,095      |
| Other assets                                   | 10,616        | 6,419        | 7,020        |
| Total Assets                                   | \$ 1,099,551  | \$ 1,087,720 | \$ 1,045,015 |
| <br><b><u>Liabilities &amp; Net Assets</u></b> |               |              |              |
| Current Liabilities:                           |               |              |              |
| Accounts payable                               | \$ 3,992      | \$ 4,003     | \$ 4,809     |
| Accrued expenses                               | 55,654        | 71,873       | 63,436       |
| Notes payable, current portion                 | 21,377        | 20,746       | 20,134       |
| Total Current Liabilities                      | 81,023        | 96,622       | 88,379       |
| Notes payable, net of current portion          | 208,251       | 229,627      | 250,373      |
| Total Liabilities                              | 289,274       | 326,249      | 338,752      |
| Net Assets:                                    |               |              |              |
| Unrestricted                                   | 810,277       | 761,471      | 706,263      |
| Total Liabilities & Net Assets                 | \$ 1,099,551  | \$ 1,087,720 | \$ 1,045,015 |

**Financial Ratios:**

|                                  | <b><u>Proforma (a)</u></b> |              |              |              |
|----------------------------------|----------------------------|--------------|--------------|--------------|
| Debt Service Coverage (x)        | <b>1.61</b>                | <b>3.53</b>  | <b>3.88</b>  | <b>3.20</b>  |
| Debt/Unrestricted Net Assets (x) | <b>0.78</b>                | <b>0.28</b>  | <b>0.33</b>  | <b>0.38</b>  |
| Margin (%)                       |                            | <b>4.59%</b> | <b>5.13%</b> | <b>6.64%</b> |
| Current Ratio (x)                |                            | <b>6.54</b>  | <b>4.96</b>  | <b>4.49</b>  |

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

## **Financial Discussion – Statement of Activities (Income Statement)**

**Over the last three fiscal years, Escuela's income statement appears to present stable operating results.**

Escuela appears to have been operating successfully over the past 33 years. Escuela has remained profitable over the last three fiscal years, posting small operating gains and solid margins ranging from 5% to 7%. Over the review period, Escuela's operating results appear to have been stable, with only minor annual variations in revenues and expenses.

### **Important Facts to Note:**

- In FY 2007, Escuela reported an increase in unrestricted net assets of \$48,800. Total FY 2007 revenues were reported to be \$1,063,900. Escuela's revenues and expenses remained relatively steady with both decreasing by approximately 1% from 2006.
- During FY 2006, Escuela reported a significant increase in donations due to a bequest of \$44,000. Salary expenses increased in 2005-2006 due to a one-time salary adjustment for all employees of approximately 10%, which was 35% of the bequest amount.

## **Financial Discussion – Statement of Financial Position (Balance Sheet)**

**Escuela's balance sheet appears solid with good liquidity and acceptable debt service coverage, thus Escuela should be able to make repayments of the proposed HELP II loan.**

Escuela has two previous HELP II loans and has carried no other long-term debt since FY 2005. The current loan balances as of July 2008 are \$109,190 and \$97,250, with a combined balance of \$206,440. Escuela obtained the larger loan in 2000 for remodeling and also for refinancing a loan with a balloon payment and the other loan was approved in 2004 to refinance the STARTS 1992A series bonds.

### **Important Facts to Note:**

- In FY 2007, Escuela reported total unrestricted net assets of \$810,277, a 6% increase over FY 2006.
- Escuela appears to have adequate liquidity with a 6.54x current ratio, supported by significant cash and cash equivalents of \$449,373 and its long-term debt to unrestricted net assets is acceptable at .28x and its proforma long-term debt to unrestricted net assets is acceptable at .78x.

- Escuela appears to be in a position to comfortably repay the proposed HELP II loan as its proforma debt service coverage ratio is 1.61x, which is within acceptable guideline levels established for the HELP II Loan Program.

### III. UTILIZATION STATISTICS

#### Clients Served Fiscal Year Ended June 30

|               | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---------------|-------------|-------------|-------------|
| <b>Totals</b> | 22          | 22          | 22          |

### IV. ORGANIZATION

#### Background

The Mission of Escuela is to provide a continuum of services that promotes independent and integrated lifestyles for people with developmental disabilities; offering clients opportunities to maximize their alternatives and choices for living and working in society and enabling them to become participating and contributing members of their community. Escuela currently services approximately 90-100 developmentally disabled adults on a daily basis in four distinct programs at four separate facility sites in Atascadero.

#### Licenses

Escuela is licensed by the State Department of Social Services as an adult day care center. Additionally, all of Escuela's programs are vended by the State Department of Developmental Services

## V. OUTSTANDING DEBT

| <u>Date Issued</u>              | <u>Original<br/>Amount</u> | <u>Amount<br/>Outstanding<br/>As of<br/>June 30, 2007*</u> | <u>Estimated<br/>Amount<br/>Outstanding<br/>after Proposed<br/>Financing</u> |
|---------------------------------|----------------------------|--|--|
| <b>Existing Long-Term Debt:</b> |                            |  |  |
| CHFFA HELP II, 2000             | \$213,500                  | \$109,190  | \$109,190  |
| CHFFA HELP II, 2004             | 124,058                    | 97,250   | 97,250   |
| <b>Proposed</b>                 |                            |  |  |
| CHFFA HELP II, 2008             |                            | N/A  | 400,000  |
| <b>TOTAL DEBT</b>               |                            | <u>206,440</u>   | <u>606,440</u>   |

\*Since only long-term debt are CHFFA loans, actual loan balances used are as of July 9, 2008 when the last payments were received. Includes current portion of long-term debt.

## VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: Escuela has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): Escuela has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

## VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Escuela del Rio in an amount not to exceed \$400,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.